

PART 4

Financial Statements



For the year ended 30 June 2021

Statement of Assurance

In the opinion of each of the Governor, as the accountable authority of the Reserve Bank of Australia (RBA), and the Chief Financial Officer, the financial statements for the year ended 30 June 2021 present fairly the Reserve Bank's financial position, financial performance and cash flows, comply with the accounting standards and any other requirements prescribed by the rules made under section 42 of the *Public Governance, Performance and Accountability Act 2013* and have been prepared from properly maintained financial records. These financial statements have been approved by a resolution of the Reserve Bank Board on 7 September 2021.



Philip Lowe

Governor and Chair, Reserve Bank Board



Emma Costello

Chief Financial Officer

10 September 2021

Statement of Financial Position – as at 30 June 2021

Reserve Bank of Australia and Controlled Entity

	Note	2021 \$M	2020 \$M
Assets			
Cash and cash equivalents	6	721	516
Australian dollar investments	1(b), 15	474,974	211,914
Foreign currency investments	1(b), 15	56,710	58,200
Gold	1(d), 15	6,022	6,615
Property, plant and equipment	1(e), 8	754	729
Other assets	7	716	697
Total assets		539,897	278,671
Liabilities			
Deposits	1(b), 9	415,576	153,541
Distribution payable to the Commonwealth	1(h), 3	2,671	2,567
Australian banknotes on issue	1(b)	95,485	90,102
Other liabilities	10	3,160	2,129
Total liabilities		516,892	248,339
Net Assets		23,005	30,332
Capital and Reserves			
Reserves:			
Unrealised profits reserve	1(g)	502	8,751
Asset revaluation reserves	1(g), 5	6,753	7,335
Superannuation reserve	1(g)	344	87
Reserve Bank Reserve Fund	1(g)	15,366	14,119
Capital	1(g)	40	40
Total Capital and Reserves		23,005	30,332

The above statement should be read in conjunction with the accompanying Notes.

Statement of Comprehensive Income – for the year ended 30 June 2021

Reserve Bank of Australia and Controlled Entity

	Note	2021 \$M	2020 \$M
Net interest income	2	4,285	1,498
Fees and commission income	2	460	521
Other income	2	53	44
Net gains/(losses) on securities and foreign exchange	2	(8,489)	1,089
General administrative expenses	2	(483)	(474)
Other expenses	2	(158)	(190)
Net Profit/(Loss)		(4,332)	2,488
<i>Gains/(losses) on items that may be reclassified to profit or loss:</i>			
Gold		(593)	1,456
		(593)	1,456
<i>Gains/(losses) on items that will not be reclassified to profit or loss:</i>			
Property		24	32
Superannuation		257	(34)
Shares in international and other institutions		(12)	45
		269	43
Other Comprehensive Income		(324)	1,499
Total Comprehensive Income		(4,656)	3,987

The above statement should be read in conjunction with the accompanying Notes.

Statement of Distribution – for the year ended 30 June 2021

Reserve Bank of Australia and Controlled Entity

	Note	2021 \$M	2020 \$M
Net profit/(loss)		(4,332)	2,488
Transfer (to)/from unrealised profits reserve		8,249	79
Transfer from asset revaluation reserves		1	–
Earnings available for distribution		3,918	2,567
<i>Distributed as follows:</i>			
Transfer to Reserve Bank Reserve Fund		1,247	–
Payable to the Commonwealth	3	2,671	2,567
		3,918	2,567

The above statement should be read in conjunction with the accompanying Notes.

Statement of Changes in Capital and Reserves – for the year ended 30 June 2021

Reserve Bank of Australia and Controlled Entity

	Note	Unrealised profits reserve	Asset revaluation reserves	Superannuation reserve	Earnings available for distribution	Reserve Bank Reserve Fund	Capital	Total capital and reserves
		\$M	\$M	\$M	\$M	\$M	\$M	\$M
Balance as at 30 June 2019		8,830	5,802	121	–	14,119	40	28,912
Net Profit/(Loss)	1(h)	(79)			2,567			2,488
Gains/(losses) on:								
Gold	1(d), 5		1,456					1,456
Shares in international and other institutions	1(b), 5		45					45
Property	1(e), 5		32					32
Superannuation	1(j)			(34)				(34)
Other comprehensive income			1,533	(34)				1,499
Total comprehensive income for 2019/20								3,987
Transfer to Reserve Bank Reserve Fund	1(g), 3				–	–		–
Transfer to distribution payable to the Commonwealth	1(h), 3				(2,567)			(2,567)
Balance as at 30 June 2020		8,751	7,335	87	–	14,119	40	30,332
Net Profit/(Loss)	1(h)	(8,249)			3,917			(4,332)
Gains/(losses) on:								
Gold	1(d), 5		(593)					(593)
Shares in international and other institutions	1(b), 5		(12)					(12)
Property	1(e), 5		24					24
Superannuation	1(j)			257				257

	Note	Unrealised profits reserve	Asset revaluation reserves	Superannuation reserve	Earnings available for distribution	Reserve Bank Reserve Fund	Capital	Total capital and reserves
		\$M	\$M	\$M	\$M	\$M	\$M	\$M
Other comprehensive income			(581)	257				(324)
Total comprehensive income for 2020/21								(4,656)
Transfer from Asset revaluation reserves	1(g), 3		(1)		1			-
Transfer to Reserve Bank Reserve Fund					(1,247)	1,247		-
Transfer to distribution payable to the Commonwealth	1(h), 3				(2,671)			(2,671)
Balance as at 30 June 2021		502	6,753	344	-	15,366	40	23,005

The above statement should be read in conjunction with the accompanying Notes.

Cash Flow Statement – for the year ended 30 June 2021

Reserve Bank of Australia and Controlled Entity

For the purposes of this statement, cash includes overnight settlement balances due from other banks.

	Note	2021 Inflow/ (outflow) \$M	2020 Inflow/ (outflow) \$M
Cash flows from operating activities			
Interest received		3,523	1,639
Interest paid		(165)	(471)
Net fee income received		374	424
Net payments for investments		(267,996)	(96,150)
Net cash collateral received/(provided)		132	1,018
Other		(438)	(437)
Net cash from operating activities	6	(264,570)	(93,977)
Cash flows from investment activities			
Net payments for property, plant and equipment		(52)	(32)
Net payments for computer software		(19)	(19)
Other		–	10
Net cash from investment activities		(71)	(41)
Cash flows from financing activities			
Distribution to the Commonwealth	3	(2,567)	(1,685)
Net movement in deposit liabilities		262,035	84,887
Net movement in banknotes on issue		5,383	10,078
Other		(5)	3
Net cash from financing activities		264,846	93,283
Net increase/(decrease) in cash		205	(735)
Cash at beginning of financial year		516	1,251
Cash at end of financial year	6	721	516

The above statement should be read in conjunction with the accompanying Notes.

Notes to and Forming Part of the Financial Statements – for the year ended 30 June 2021

Reserve Bank of Australia and Controlled Entity

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Note 1 – Accounting Policies

The RBA reports its consolidated financial statements in accordance with the *Reserve Bank Act 1959* and the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). These financial statements for the year ended 30 June 2021 are a general purpose financial report prepared under Australian Accounting Standards (AAS) and accounting interpretations issued by the Australian Accounting Standards Board, in accordance with the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*, which is issued pursuant to the PGPA Act. The RBA is classified as a for-profit public sector entity for the purposes of financial disclosure. These financial statements comply with International Financial Reporting Standards. In preparing them, the RBA has not 'early adopted' new accounting standards or amendments to current standards that apply from 1 July 2021.

All amounts in these financial statements are expressed in Australian dollars, the functional and presentational currency of the RBA. All revenues and expenses are brought to account on an accruals basis.

COVID-19 pandemic

In response to the ongoing COVID-19 pandemic, the Reserve Bank Board announced policy measures during 2020/21 to provide additional support for the economy through lower funding costs to support the provision of credit to households and businesses, which extended the range of measures announced in March 2020. These additional measures included:

- A Bond Purchase Program under which the RBA purchases government bonds with maturities of 5 to 10 years in the secondary market. An initial \$100 billion of purchases was completed between November 2020 and March 2021. An additional \$100 billion was announced in February 2021, with purchases to occur between April and September 2021. Government bonds with a face value of \$153.9 billion have been purchased since November 2020. These are reported within Australian dollar securities. At its meeting on 6 July 2021, the Board decided to continue purchasing government bonds after the completion of the current bond purchases in early September. These purchases will be at a rate of \$4 billion a week until at least mid February 2022.
- Lowering of the target for the yield on 3-year Australian Government bond to 0.10 per cent. To achieve this objective, purchases of \$28.0 billion were undertaken in the secondary market during 2020/21 (\$51.3 billion in 2019/20).
- Reduction of the interest rate on the Term Funding Facility (TFF) established in March 2020 to 10 basis points from 25 basis points previously. Under this arrangement, authorised deposit-taking institutions (ADIs) were able to access funding through reverse repurchase agreements with a 3-year term and at a fixed interest rate. Reverse repurchase agreements of \$187.7 billion had been settled at 30 June 2021 (\$13.9 billion at 30 June 2020). New drawings under the facility ceased on 30 June 2021.

Transactions arising from these measures are accounted for under the RBA's existing policies for such financial instruments (see Note 1(b)). Financial risks associated with these instruments are disclosed within Note 15. Further detail is provided in the chapter on 'Operations in Financial Markets'.

Accounting estimates

COVID-19 has increased the uncertainty of some accounting estimates, including assumptions around salary growth used to value the RBA's provisions for employee benefits (Note 1(l)) and the defined benefit superannuation obligation (Note 14). Uncertainty remains around inputs used in the valuation of the RBA's property assets at 30 June 2021 (Note 16) and the RBA's assessment of expected credit losses on its financial instruments (Note 15). Management does not consider that the current uncertainty around these estimates and assumptions has had a material effect on the RBA's overall financial position and performance as at 30 June 2021.

(a) Consolidation

The financial statements show information for the economic entity only; this reflects the consolidated results for the parent entity, the RBA, and its wholly owned subsidiary, Note Printing Australia Limited (NPA). The results of the parent entity do not differ materially from the economic entity and have therefore not been separately disclosed.

Note Printing Australia Limited

NPA was incorporated as a wholly owned subsidiary of the RBA on 1 July 1998.

NPA Balance Sheet	2021 \$M	2020 \$M
Assets	174.9	175.0
Liabilities	43.8	46.3
Equity	131.1	128.7

The assets, liabilities and results of NPA have been consolidated with the accounts of the parent entity in accordance with AASB 10 – *Consolidated Financial Statements*. All internal transactions and balances have been eliminated on consolidation. These transactions include items relating to the purchase of Australian banknotes, lease of premises and the provision of premises and security services.

(b) Financial instruments

A financial instrument is defined as any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity. The RBA accounts for its financial instruments in accordance with AASB 9 – *Financial Instruments* and reports these instruments under AASB 7 – *Financial Instruments: Disclosures* and AASB 13 – *Fair Value Measurement*.

The RBA brings its securities and foreign exchange transactions to account on a trade date basis. Deposits, repurchase agreements and gold swaps are brought to account on settlement date.

Financial assets

Australian dollar securities

Australian dollar securities, except those held under reverse repurchase agreements, are measured at fair value through profit or loss, as they are held to implement monetary policy and may be sold or lent, typically for short terms, under repurchase agreements. The securities are valued at market bid prices on balance date; valuation gains or losses are taken to profit. Interest earned on securities is accrued as revenue.

Reverse repurchase agreements

In carrying out operations to manage domestic liquidity and foreign reserves, the RBA enters into reverse repurchase agreements in Australian dollar and foreign currency securities. A reverse repurchase agreement involves the purchase of securities with an undertaking to reverse this transaction at an agreed price on an agreed future date. As a reverse repurchase agreement provides the RBA's counterparties with cash for the term of the agreement, the RBA treats it as an asset by recording a cash receivable. Reverse repurchase agreements are measured at amortised cost. Interest earned is accrued over the term of the agreement and recognised as revenue.

RBA open repurchase agreements are provided to assist eligible financial institutions manage their liquidity after normal business hours. An RBA open repurchase agreement is an Australian dollar reverse repurchase agreement without an agreed maturity date. The RBA accrues interest daily on open repurchase agreements at the target cash rate.

Gold borrowed under gold swaps

Gold swaps are available to assist with domestic liquidity management and to enhance the return on the RBA's gold holdings.

Gold swaps involving the purchase of gold include an undertaking to reverse this transaction at an agreed price on an agreed future date. As these gold swaps provide the RBA's counterparty with cash for the term of the agreement, the RBA treats it as an asset by recording a cash receivable. Gold swaps are measured at amortised cost in accordance with AASB 9. The difference in agreed gold prices for the first and second legs is accrued over the term of the swap and recognised as interest income. Gold borrowed under a swap agreement is not recognised on the RBA's balance sheet, as the predominant risk and reward of ownership, including exposure to any movement in the market price of gold, remains with the counterparty.

Foreign government securities

Foreign government securities, except those held under reverse repurchase agreements, are measured at fair value through profit or loss, as they are available to be traded in managing the portfolio of foreign reserves. These securities are valued at market bid prices on balance date and valuation gains or losses are taken to profit. Interest earned on securities is accrued as revenue.

Foreign deposits

Some foreign currency reserves are invested in deposits with central banks and the Bank for International Settlements (BIS), while small working balances are also maintained with a small number of commercial banks. Deposits are measured at amortised cost. Interest is accrued over the term of deposits.

Foreign currency swaps

The RBA uses foreign currency swaps to assist domestic liquidity management and in managing foreign reserve assets and Australia's foreign currency commitments as a member of the IMF. A foreign currency swap is the simultaneous purchase and sale of one currency against another currency for a specified maturity. The cash flows are the same as borrowing one currency for a certain period and lending another currency for the same period. The pricing of the swap therefore reflects the interest rates applicable to these money market transactions. Interest rates are implicit in the swap contract but interest itself is not paid or received. Foreign currency swaps are measured at fair value through profit or loss.

A temporary foreign exchange swap facility with the US Federal Reserve (the Fed) was established in March 2020 to help lessen strains in global US funding markets. Under these swaps, the Fed provides US dollars to the RBA in exchange for Australian dollars. The US dollars were, in turn, made available by the RBA to local market participants under reverse repurchase agreements, in exchange for Australian dollar denominated collateral (and reported within 'Foreign currency investments'). The Australian dollars provided to the Fed under the swap were held on deposit with the RBA. On maturity, these swaps were unwound at the same exchange rate as the currencies were exchanged in the first leg. The facility has not been accessed since June 2020, with the final swap unwinding in September 2020. Accordingly, there were no swaps outstanding under the facility at 30 June 2021 (\$0.8 billion at 30 June 2020).

Bond futures

The RBA uses bond futures contracts on overseas exchanges to manage interest rate risk on its portfolio of foreign assets. Bond futures positions are measured at fair value through profit or loss with valuation gains or losses taken to net profit. Futures positions are reported within 'Foreign currency investments'.

Asian Bond Fund 2 (ABF2)

The RBA invests in a number of non-Japan Asian debt markets through participation in the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) Asian Bond Fund. This investment comprises units in ABF2, which invests in local currency-denominated bonds issued by sovereign and quasi-sovereign issuers in EMEAP markets. ABF2 is measured at fair value through profit or loss and is valued on balance date at the relevant unit price of the fund, with valuation gains or losses taken to profit. ABF2 is reported within 'Foreign currency investments'.

Shareholding in Bank for International Settlements

Shares in the BIS are owned exclusively by the central banks and monetary authorities that are its members, including the RBA. The RBA has made an election to designate its shareholding in the BIS at fair value through other comprehensive income, as permitted under AASB 9. The shareholding is measured at fair value and valuation gains or losses are transferred directly to the revaluation reserve for 'Shares in international and other institutions' (Note 5). An uncalled portion of this shareholding is disclosed as a contingent liability in Note 11. Dividends are recognised as revenue in net profit, when declared.

Financial liabilities

Deposit liabilities

Deposits held with the RBA include both deposits on-demand and term deposits (see Note 9). Deposit liabilities are measured at amortised cost. Interest is accrued over the term of deposits and is paid periodically or at maturity. Interest accrued on deposits not yet paid is included in Note 10.

Australian banknotes on issue

Banknotes on issue are a financial liability recorded at face value.

The RBA pays interest on working balances of banknotes held by banks under cash distribution arrangements (see Note 4).

Costs related to materials used in the production of banknotes are included in 'Other expenses' in Note 2.

Repurchase agreements

A repurchase agreement involves the sale of securities with an undertaking to repurchase them on an agreed future date at an agreed price. Securities sold and contracted for repurchase under repurchase agreements are retained on the balance sheet and reported within the relevant investment portfolio (see 'Australian dollar securities' and 'Foreign government securities', above). The counterpart obligation to repurchase the securities is reported in 'Other liabilities' (Note 10) and measured at amortised cost. The difference between the sale and purchase price is accrued over the term of the agreement and recognised as interest expense.

Gold loaned under gold swaps

Gold swaps involving the sale of gold include an undertaking to reverse this transaction at an agreed price on an agreed future date. Gold sold under gold swaps is retained on the balance sheet and reported within gold holdings (Note 1(d)). The counterpart obligation to repurchase the gold is reported in 'Other liabilities' (Note 10) and measured at amortised cost. The difference in agreed gold prices for each leg is accrued over the term of the swap and recognised as interest expense.

(c) Foreign exchange translation

Assets and liabilities denominated in foreign currency are converted to Australian dollar equivalents at the relevant market exchange rate on balance date in accordance with AASB 121 – *The Effects of Changes in Foreign Exchange Rates*. Valuation gains or losses on foreign currency are taken to net profit. Interest revenue and expenses and revaluation gains and losses on foreign currency securities are converted to Australian dollars using exchange rates on the date they are accrued or recognised.

(d) Gold

Gold holdings (including gold sold under gold swaps or on loan to other institutions) are valued at the Australian dollar equivalent of the 3.00 pm fix in the London gold market on balance date. Valuation gains or losses on gold are transferred to the asset revaluation reserve for gold.

In addition to gold swaps (Note 1(b)), the RBA also lends gold to institutions that participate in the gold market under gold loan agreements. Similar to gold swaps, gold provided under a loan is retained on the balance sheet. Interest is accrued over the term of the loan and is paid at maturity. The interest receivable on gold loans is accounted for in accordance with AASB 9.

(e) Property, plant and equipment

The RBA accounts for property, plant and equipment it owns outright in accordance with AASB 116 – *Property, Plant and Equipment* and AASB 13. Property, plant and equipment held under lease arrangements, including overseas and interstate representative offices and computer hardware, are accounted for under AASB 16 – *Leases*.

Annual expenditure, revaluation adjustments and depreciation of property, plant and equipment, including leased assets, are included in Note 8.

Property

The RBA measures its property at fair value. The RBA's Australian properties are formally valued annually by an independent valuer; overseas properties are independently valued on a triennial basis, with the most recent valuation conducted in 2018/19. Reflecting their specialised nature, fair value for the RBA's Business Resumption Site and National Banknote Site is based on depreciated replacement cost. Valuation gains (losses) are generally transferred to (absorbed by) the asset revaluation reserve of each respective property. Any part of a valuation loss that exceeds the balance in the relevant asset revaluation reserve is expensed. Subsequent valuation gains that offset losses that were previously treated as an expense are recognised as income in net profit.

Annual depreciation is calculated on a straight line basis using assessments of the remaining useful life of the relevant building.

Plant and equipment

Plant and equipment is valued at cost less accumulated depreciation. Annual depreciation is calculated on a straight line basis using the RBA's assessment of the remaining useful life of individual assets.

Depreciation rates for each class of depreciable assets are based on the following range of useful lives:

	Years
Buildings	15–50
Fit-out	5–10
Computer hardware	4
Motor vehicles	5
Plant and other equipment	4–20

Leased Assets

Leased assets are measured at cost and comprise of the amount equal to the lease liability, adjusted by the amount of any lease payments made before commencement date and initial direct costs less accumulated depreciation. Annual depreciation is calculated on a straight line basis using the length of the lease term.

(f) Computer software

Computer software is reported in accordance with AASB 138 – *Intangible Assets*. Computer software is recognised at cost less accumulated amortisation and impairment adjustments, if any (see Note 7). Amortisation of computer software is calculated on a straight line basis over the estimated useful life of the relevant asset, usually for a period of between four and six years (see Note 7). The useful life of payments systems and core banking software may be for a period of between 10 and 15 years, reflecting the period over which future economic benefits are expected to be realised from these assets.

(g) Capital and reserves

The capital of the Reserve Bank is established by the Reserve Bank Act.

The Reserve Bank Reserve Fund (RBRF) is also established by the Reserve Bank Act and is regarded essentially as capital. The RBRF is a reserve maintained to provide for events that are contingent and not foreseeable, including to cover losses from falls in the market value of the RBA's holdings of Australian dollar and foreign currency investments that cannot be absorbed by its other resources. The RBRF also provides for other risks such as operational risk. In accordance with the Reserve Bank Act, this reserve is funded only by transfers from net profits, as determined by the Treasurer, after consulting the Reserve Bank Board (see Note 1(h)). The Board assesses the adequacy of the balance of the RBRF each year. The balance of the RBRF currently stands at a level that the Board regards as appropriate for the risks the RBA holds on its balance sheet (see 'Earnings, Distribution and Capital' chapter).

The RBA's equity also includes a number of other reserves.

Unrealised gains and losses on foreign exchange, foreign securities and Australian dollar securities are recognised in net profit. Such gains or losses are not available for distribution and are transferred to the unrealised profits reserve, where they remain available to absorb future unrealised losses or become available for distribution if gains are realised when assets are sold or mature.

The balance of the Superannuation reserve represents accumulated remeasurement gains or losses on the RBA's defined benefit superannuation obligations (Note 1(j)).

Balances of asset revaluation reserves reflect differences between the fair value of non-traded assets and their cost. These assets are: gold; property held outright; and shares in international and other institutions. Valuation gains on these assets are not distributable unless an asset is sold and these gains are realised.

(h) Net profits

Net profits of the RBA are dealt with in the following terms by section 30 of the Reserve Bank Act:

- (1) Subject to subsection (2), the net profits of the Bank in each year shall be dealt with as follows:
 - (aa) such amount as the Treasurer, after consultation with the Reserve Bank Board, determines is to be set aside for contingencies; and
 - (a) such amount as the Treasurer, after consultation with the Reserve Bank Board, determines shall be placed to the credit of the Reserve Bank Reserve Fund; and
 - (b) the remainder shall be paid to the Commonwealth.
- (2) If the net profit of the Bank for a year is calculated on a basis that requires the inclusion of unrealised gains on assets during the year, the amount to which subsection (1) applies is to be worked out as follows:
 - (a) deduct from the net profit an amount equal to the total of all amounts of unrealised gains included in the net profit; and
 - (b) if an asset in respect of which unrealised gains were included in the net profit for a previous year or years is realised during the year – add to the amount remaining after applying paragraph (a) the total amount of those unrealised gains.

(i) Provisions for employee benefits entitlements

In accordance with AASB 119 – *Employee Benefits*, the RBA records provisions for certain employee benefit entitlements, including accrued annual and long service leave and post-employment health insurance benefits. These provisions reflect the present value of the estimated future cost to meet those entitlements, including any applicable fringe benefit or payroll taxes and, in the case of leave entitlements, future leave accrual and superannuation contributions to the extent that any leave is assumed to be taken during service. Leave provisions are calculated using assumptions for length of staff service, leave utilisation and future salary. The provision for post-employment health insurance benefits is estimated using assumptions about the length of staff service, longevity of retired staff and future movements in health insurance costs. This post-employment benefit ceased to be available for new staff appointed after 30 June 2013.

Further detail on employee benefit provisions are included in Note 10.

(j) Superannuation funds

The RBA includes in its Statement of Financial Position an asset or liability representing the position of its defined benefit superannuation funds measured in accordance with AASB 119. Movements in the superannuation asset or liability are reflected in the Statement of Comprehensive Income. Remeasurement gains and losses are transferred to the Superannuation reserve.

Details of the superannuation funds and superannuation expenses are included in Note 14.

(k) Committed Liquidity Facility

The RBA provides a Committed Liquidity Facility (CLF) to eligible ADIs. Fees received from providing the CLF are recognised as fee income in net profit. Additional information on the CLF is provided in Note 11.

(l) Lease liabilities

Lease liabilities are measured at the present value of the remaining lease payments (see Note 10). The lease liability is subsequently remeasured where there is a change in the lease term or future lease payments. Lease payments in relation to leases with a lease term of 12 months or less and leases for low-value assets are expensed on a straight-line basis over the lease term.

(m) Revenue from contracts with customers

In the course of its operations, the RBA enters into contracts for the provision of goods and services. These include: contracts for the provision of banking and payment services to the Australian Government, overseas central banks and official institutions; the provision of the CLF for participating ADIs (see Note 1(k)); and, in the case of the RBA's subsidiary, banknote and security products to overseas central banks.

Revenue is recognised on a gross basis at the point the contracted performance obligation is satisfied, as required by AASB 15 – *Revenue from Contracts with Customers*. In the case of banking and payment services, revenue is recognised upon the completion of the provision of service. Revenue from the sale of banknote and security products is recognised at the point at which the product is accepted and CLF fee income is recognised over the period the facility is provided.

Where the right to consideration for the completion of the performance obligation under the contract becomes unconditional, a receivable is recognised in the Statement of Financial Position; a contract asset is recorded when this right remains conditional (see Note 7). Where a performance obligation under a contract remains unsatisfied, but consideration has been received, the RBA reports this as an unearned contract liability (see Note 10).

(n) Rounding

Amounts in the financial statements are rounded to the nearest million dollars unless otherwise stated.

(o) Comparative information

Certain comparative information may be reclassified where required for consistency with the current year presentation.

(p) Application of new or revised Australian Accounting Standards

New Australian Accounting Standards and amendments made to existing standards that apply to the RBA's financial statements in the current and future financial years are not expected to result in a material impact on disclosures.

Note 2 – Net Profit

	Note	2021 \$M	2020 \$M
Net interest income			
Interest income	1(b), 4	4,432	1,944
Interest expense	1(b), 4	(147)	(446)
		4,285	1,498
Fees and commissions income			
Committed liquidity facility	1(k), 1(m)	331	373
Banking services	1(m)	96	115
Payment services	1(m)	33	33
		460	521
Other income			
Sales of banknote and security products	1(m)	37	33
Rental of Bank premises		3	5
Dividend revenue	1(b)	9	–
Other		4	6
		53	44
Net gains/(losses) on securities and foreign exchange			
Foreign investments	1(b)	(107)	212
Australian dollar securities	1(b)	(5,154)	(435)
Foreign currency	1(b)	(3,228)	1,312
		(8,489)	1,089
General administrative expenses			
Staff costs		(247)	(246)
Net gains/(losses) on employee provisions		(3)	7
Superannuation costs	1(j)	(70)	(71)
Depreciation of property, plant and equipment	1(e), 8	(52)	(52)
Amortisation of computer software	1(f), 7	(21)	(24)
Premises and equipment		(75)	(73)
Other		(15)	(15)
		(483)	(474)
Other expenses			
Banking service fees		(78)	(97)
Materials used in banknote and security products		(40)	(51)
Banknote distribution		(2)	(2)
Other		(38)	(40)
		(158)	(190)
Net Profit/(Loss)		(4,332)	2,488

Note 3 – Distribution Payable to the Commonwealth

Net profits of the RBA, less amounts transferred to the RBRF, are paid to the Commonwealth as required by section 30 of the Reserve Bank Act (see Note 1(h)). Also under section 30, unrealised profits from foreign exchange, foreign securities and Australian dollar securities are not available for distribution. Instead they are transferred to the unrealised profits reserve where they remain available to absorb future valuation losses or are realised when relevant assets are sold or mature. Unrealised losses are, in the first instance, absorbed within the unrealised profits reserve where they are offset against unrealised profits accumulated from previous years. For purposes of distribution, if such losses exceed the balance of the unrealised profits reserve, the amount by which they do so is initially charged against other components of net profit, and any remaining loss is absorbed by the RBRF.

In 2020/21, the RBA recorded a net accounting loss of \$4,332 million. Unrealised losses of \$8,249 million were absorbed within the unrealised profits reserve. A gain of \$1 million was transferred from the Asset revaluation reserve to the Statement of Distribution. Earnings available for distribution therefore amounted to \$3,918 million in 2020/21.

The Treasurer, after consulting the Board, determined that a sum of \$1,247 million was to be placed from earnings to the credit of the RBRF. Accordingly, a sum of \$2,671 million is payable as a dividend to the Commonwealth. This sum will be paid to the Commonwealth in September 2021. An amount of \$2,567 million was paid to the Commonwealth in 2020/21.

	2021 \$M	2020 \$M
Opening balance	2,567	1,685
Distribution to the Commonwealth	(2,567)	(1,685)
Transfer from Statement of Distribution	2,671	2,567
As at 30 June	2,671	2,567

Note 4 – Interest Income and Interest Expense

Analysis for the year ended 30 June 2021

	Average balance \$M	Interest \$M	Average annual interest rate Per cent
Interest income			
Foreign currency investments	54,220	138	0.3
Australian dollar investments	280,805	4,293	1.5
Overnight settlements	503	0	0.0
Cash collateral provided	86	0	0.1
Gold loans	826	1	0.1
Gold borrowed under gold swaps	–	–	–
Loans, advances and other	32	0	0.6
	336,472	4,432	1.3
Interest expense			
Exchange Settlement balances	139,878	40	0.0
Deposits from governments	74,308	107	0.1
Deposits from overseas institutions	5,401	0	0.0
Banknote holdings of banks	3,873	1	0.0
Foreign currency repurchase agreements	556	0	0.0
Australian dollar repurchase agreements	180	0	(0.1)
Gold loaned under gold swaps	623	(1)	(0.1)
Cash collateral received	172	0	0.0
	224,991	147	0.1
Net interest margin			1.3
Analysis for the year ended 30 June 2020			
Interest income	190,279	1,944	1.0
Interest expense	84,610	446	0.5
Net interest margin			0.8

Interest income for 2020/21 includes \$276 million calculated using the effective interest method for financial assets not at fair value through profit or loss (\$736 million in 2019/20). Interest expense for 2020/21 includes \$147 million calculated using the effective interest method for financial liabilities not at fair value through profit or loss (\$446 million in 2019/20).

Note 5 – Asset Revaluation Reserves

The composition of the RBA's asset revaluation reserves (Note 1(g)) is shown below.

	Note	2021 \$M	2020 \$M
Gold	1(d)	5,894	6,488
Shares in international and other institutions	1(b), 7	462	474
Property	1(e), 8	397	373
As at 30 June		6,753	7,335

Note 6 – Cash and Cash Equivalents

	2021 \$M	2020 \$M
Cash	17	39
Overnight settlements	704	477
As at 30 June	721	516

Cash and cash equivalents include net amounts of \$704 million owed to the RBA for overnight clearances of financial transactions through the payments system (\$477 million at 30 June 2020). Other cash and cash equivalents include NPA's bank deposits.

Cash and cash equivalents exclude Australian and foreign short-term investments held to implement monetary policy or as part of Australia's foreign reserve assets. These investments are disclosed as Australian dollar investments and foreign currency investments, respectively; further detail is disclosed in Note 15.

Reconciliation of net cash used in operating activities to Net Profit	Note	2021 \$M	2020 \$M
Net Profit		(4,332)	2,488
Net (gain)/loss on overseas investments	2	107	(212)
Net (gain)/loss on Australian dollar securities	2	5,154	435
Net (gain)/loss on foreign currency	2	3,228	(1,312)
Depreciation of property, plant and equipment	2	52	52
Amortisation of computer software	2	21	24
Net payments for investments		(267,996)	(96,150)
(Increase)/decrease in interest receivable		(911)	(293)
Increase/(decrease) in interest payable		(16)	(37)
Cash collateral received/(provided)		132	1,018
Other		(9)	10
Net cash used in operating activities		264,570	(93,977)

Note 7 – Other Assets

	Note	2021 \$M	2020 \$M
Shareholding in Bank for International Settlements	1(b)	507	518
Computer software	1(f)	90	92
Other		119	87
As at 30 June		716	697

At 30 June 2021, the gross book value of the RBA's computer software amounted to \$192.9 million and the accumulated amortisation on these assets was \$102.5 million (\$174.6 million and \$82.7 million, respectively, at 30 June 2020). During 2020/21, there were \$18.3 million in net additions to computer software (\$18.4 million in 2019/20) and \$20.9 million in amortisation expense (\$24.3 million in 2019/20). The RBA had contractual commitments of \$0.8 million as at 30 June 2021 for the acquisition of computer software (less than \$0.1 million at 30 June 2020).

Other assets include receivables of \$33.6 million at 30 June 2021 (\$19.1 million at 30 June 2020).

None of these assets is impaired. There were no contract assets at 30 June 2021 (Note 1(m)).

Note 8 – Property, Plant and Equipment

	Land and buildings \$M	Plant and equipment \$M	Leased assets \$M	Total \$M
Gross Book Value as at 30 June 2020	568	330	25	923
Accumulated depreciation	(1)	(189)	(4)	(194)
Net Book Value	567	141	21	729
Additions	20	33	1	54
Depreciation expense	(14)	(34)	(4)	(52)
Net gain/(loss) recognised in Other Comprehensive Income	24	–	–	24
Disposals	–	(1)	0	(1)
Net additions to net book value	30	(2)	(3)	25
Gross Book Value as at 30 June 2021	598	357	26	981
Accumulated depreciation	(1)	(218)	(8)	(227)
Net Book Value	597	139	18	754

The net book value of the RBA's property, plant and equipment includes \$48.3 million of work in progress (\$25.0 million at 30 June 2020). The carrying amount of leased assets at 30 June 2021 includes \$11.3 million in property and \$6.7 million in plant and equipment (\$11.9 million and \$9.0 million, respectively, at 30 June 2020).

As at 30 June 2021, the RBA had contractual commitments of \$19.2 million for acquisitions relating to its property, plant and equipment (\$24.5 million at 30 June 2020), of which \$16.6 million are due within one year (\$18.6 million at 30 June 2020).

Note 9 – Deposits

	2021 \$M	2020 \$M
Exchange Settlement balances	341,800	73,497
Australian Government	61,539	76,110
State governments	44	544
Foreign governments, foreign institutions and international organisations	12,193	3,390
Other depositors	0	0
As at 30 June	415,576	153,541

Note 10 – Other Liabilities

	Note	2021 \$M	2020 \$M
Provisions			
Provision for annual and other leave	1(i)	29	25
Provision for long service leave	1(i)	56	50
Provision for post-employment benefits	1(i)	98	100
Other		4	9
		187	184
Other			
Securities sold under agreements to repurchase	1(b)	996	22
Payable for unsettled purchases of securities	1(b)	1,480	579
Cash payable for gold loaned under gold swaps	1(b)	0	884
Foreign currency swap liabilities	1(b)	383	90
Interest accrued on deposits	1(b)	5	12
Superannuation liability	1(j), 14	23	247
Other		86	111
		2,973	1,945
Total Other Liabilities as at 30 June		3,160	2,129

The RBA's provision for its post-employment benefits was \$2.1 million lower in 2020/21, due to a decline in the longevity of retired staff and an increase in discount rates used to measure the estimated future cost of providing these benefits in present value terms. Benefits of \$4.7 million were paid out of the provision for post-employment benefits in 2020/21. The balance of the provision for post-employment benefits will change if assumptions about the length of staff service, the longevity of retired staff, future costs of providing benefits, or discount rates vary.

Other provisions include amounts for legal matters and workers compensation.

Other liabilities include contract liabilities of \$23.1 million relating to unearned revenue from the provision of the CLF (Note 1(m)) and \$19.6 million in lease liabilities. Interest on lease liabilities was \$0.2 million in 2020/21.

Note 11 – Contingent Assets and Liabilities

Committed Liquidity Facility

Since 1 January 2015, the RBA has provided a CLF to eligible ADIs as part of Australia's implementation of the Basel III liquidity standards. The CLF provides ADIs with a contractual commitment to funding under repurchase agreements with the RBA, subject to certain conditions. It was established to ensure that ADIs are able to meet their liquidity requirements under Basel III. The CLF is made available to ADIs in Australia because the supply of high-quality liquid assets (HQLA) is lower in Australia than is typical in other major economies (in other countries, these liquidity requirements are usually met by banks' HQLAs on their balance sheet). While the RBA administers the CLF, the Australian Prudential Regulation Authority (APRA) determines which institutions have access to the facility and the limits available. Any drawdown must meet certain conditions, including: APRA does not object to the drawdown; and the RBA assesses that the ADI has positive net worth. Accordingly, the potential funding under the CLF is disclosed as a contingent liability; repurchase agreements associated with providing funding are disclosed as a contingent asset. If an ADI drew on the CLF, the funds drawn would be shown as a deposit liability of the RBA, and the counterpart repurchase agreement as an Australian dollar investment.

The aggregate undrawn commitment of the CLF at 30 June 2021 totalled \$115 billion for 14 ADIs (\$201 billion for 15 ADIs at 30 June 2020).

Bank for International Settlements

The RBA has a contingent liability for the uncalled portion of its shares held in the BIS amounting to \$68.3 million at 30 June 2021 (\$72.4 million at 30 June 2020).

Insurance

The RBA carries its own insurance risks except when external insurance cover is considered to be more cost-effective or is required by legislation.

Performance guarantees

In the course of providing services to its customers, the RBA provides performance guarantees to third parties in relation to customer activities. Such exposure is not material and has not given rise to losses in the past.

Similarly, the RBA has provided a performance guarantee for pension payments to members of the Reserve Bank of Australia UK Pension Scheme in relation to a UK insurer. This exposure is not material. Further detail is provided in Note 14.

Note 12 – Key Management Personnel

The key management personnel of the RBA are the Governor and Deputy Governor, non-executive members of the Reserve Bank Board, non-executive members of the Payments System Board and the Assistant Governors, who are the senior staff responsible for planning, directing and controlling the activities of the RBA. There were 20 of these positions in 2020/21 (unchanged from 2019/20). A total of 23 individuals occupied these positions for all or part of the financial year (21 in the previous year).

The positions of Governor and Deputy Governor are designated as Principal Executive Offices in terms of the *Remuneration Tribunal Act 1973*, which provides for the Remuneration Tribunal to determine the applicable remuneration for these positions. Within the parameters determined by the Remuneration Tribunal, the Reserve Bank Board Remuneration Committee, comprising three non-executive members, makes a recommendation on remuneration for these positions for the approval of the Board, which is the 'employing body' for the positions. In accordance with provisions of the Reserve Bank Act, neither the Governor nor the Deputy Governor takes part in decisions of the Reserve Bank Board relating to the determination or application of any terms or conditions on which either of them holds office. In June 2020, the Remuneration Tribunal determined that no adjustment would be made at that time to the remuneration of offices in its jurisdiction, including Principal Executive Offices. Accordingly, the remuneration reference rates for these positions of Governor and Deputy Governor were unchanged in 2020/21 at \$1,061,210 (superannuable salary of \$774,683) for the Governor and \$795,910 (superannuable salary of \$581,014) for the Deputy Governor. Remuneration of each of the Governor and Deputy Governor in 2020/21 was at the applicable reference rate. No performance payments were made to either the Governor or Deputy Governor in 2020/21.

Fees for non-executive members of the Reserve Bank Board and the Payments System Board are determined by the Remuneration Tribunal. The Governor determines the rates of remuneration of the Assistant Governors. For staff generally, remuneration aims to be market competitive and designed to attract and retain appropriately skilled people. Remuneration levels for employees are externally benchmarked.

The disclosure of key management personnel remuneration is based on AASB 124 – *Related Party Disclosures*, as shown below. The figures are disclosed on an accruals basis and show the full cost to the consolidated entity; they include all leave and fringe benefits tax charges.

	2021 \$	2020 \$
Short-term employee benefits	5,125,974	5,184,273
Post-employment benefits	805,758	853,974
Other long-term employee benefits	304,513	256,536
Termination benefits	–	–
Total compensation^(a)	6,236,245	6,294,783

- (a) Within the group of key management personnel, 21 individuals (18 in 2019/20) were remunerated and included in this table; the two key management personnel that are not remunerated are the individuals who held the positions of Secretary to the Treasury, as a member of the Reserve Bank Board, and the Chairman of APRA, as a member of the Payments System Board

Short-term benefits include salary and, for relevant executives, lump-sum performance payments and motor vehicle, car parking and health benefits (including any fringe benefits tax on these benefits).

Post-employment benefits include superannuation and, in the case of executives, an estimate of the cost to provide health benefits in retirement. Other long-term employee benefits include long service leave and annual leave, as well as the effect of revaluing previously accrued leave entitlements in accordance with AASB 119 (see Note 10).

There were no loans or other related party transactions with Board members or other key management personnel during 2020/21 and 2019/20. Transactions with Board member-related entities that occurred in the normal course of the RBA's operations were incidental and conducted on terms no more favourable than similar transactions with other employees or customers; any vendor relationships with such entities were at arm's length and complied with the RBA's procurement policy.

Note 13 – Auditor's Remuneration

	2021 \$	2020 \$
Fees paid or payable to the statutory auditor (Australian National Audit Office) for audit services	409,000	436,091

KPMG has been contracted by the Australian National Audit Office (ANAO) to provide audit services for the external audit of the RBA and the RBA's subsidiary, NPA.

During 2020/21, KPMG earned additional fees of \$34,395 for non-audit services that were separately contracted by the RBA (\$91,197 in 2019/20). These fees included advisory services provided to the RBA.

Note 14 – Superannuation Funds

The RBA sponsors two superannuation funds: RB Super and the Reserve Bank of Australia UK Pension Scheme. For RB Super, current and future benefits are funded by member and RBA contributions and the existing assets of the scheme.

RB Super is a hybrid plan, with a mix of defined benefit members, defined contribution members and pensioners. Defined benefit members receive a defined benefit in accordance with RB Super's plan rules. Most members have unitised accumulation balances, which comprise employer contributions and members' personal contributions plus earnings on these contributions. Defined benefit membership was closed to new RBA staff from 1 August 2014. From that date, new staff have been offered defined contribution superannuation. The RBA does not have a role in directly operating or governing RB Super and has no involvement in the appointment of the RB Super Trustees.

The UK Pension Scheme is a closed defined benefit scheme subject to relevant UK regulation. In 2018, the Trustees, with agreement from the RBA, entered into the buy-in side of a bulk purchase annuity contract with Aviva Life and Pensions UK Limited (Aviva) to reduce the funding risk in relation to the UK Pension Scheme's pension liabilities. During 2019 and 2020, the Trustees completed their work with Aviva to convert the buy-in policy to a buy-out policy, thereby fully securing members' benefits with Aviva. The Trustees and the RBA are now nearing completion of winding up the Scheme. Defined benefit accrual for current members ceased on 30 June 2018. From that date, current and new staff have been offered defined contribution arrangements in a separate fund.

Funding valuation

An independent actuarial valuation of RB Super is conducted every three years. The most recent review was completed for the financial position as at 30 June 2020 using the Attained Age Funding method. Accrued benefits were determined as the value of the future benefits payable to members (allowing for future salary increases), discounted by the expected rate of return on assets held to fund these benefits. At the time of this review, the surplus was \$313 million. On the same valuation basis, the RB Super surplus as at 30 June 2021 amounted to \$534 million. The RBA maintained its contribution rate to fund defined benefit obligations at 18.3 per cent of salaries in 2020/21, consistent with the actuary's recommendation.

Accounting valuation

For financial statement purposes, disclosures required by AASB 119 are provided only for RB Super, as the UK Pension Scheme is not material.

Actuarial assumptions

The principal actuarial assumptions for the AASB 119 valuation of RB Super are:

	2021 Per cent	2020 Per cent
Discount rate (gross of tax) ^(a)	3.6	3.5
Future salary growth ^(b)	3.0	3.0
Future pension growth ^(b)	3.0	3.0

(a) Based on highly rated Australian dollar-denominated corporate bond yields

(b) Includes a short-term assumption of 2.0 per cent for the first two years of the projections (2.0 per cent for the first three years in 2020)

Maturity analysis

The weighted average duration of the defined benefit obligation for RB Super is 20 years (20 years at 30 June 2020). The expected maturity profile for defined benefit obligations of RB Super is as follows:

	2021 Per cent	2020 Per cent
Less than 5 years	14	15
Between 5 and 10 years	14	15
Between 10 and 20 years	27	27
Between 20 and 30 years	22	21
Over 30 years	23	22
Total	100	100

Risk exposures

Key risks from the RBA's sponsorship of the RB Super defined benefit plan include investment, interest rate, longevity, salary and pension risks.

Investment risk is the risk that the actual return on future plan assets will be lower than the assumed rate.

Interest rate risk is the exposure of the defined benefit obligations to adverse movements in interest rates. A decrease in interest rates will increase the present value of these obligations.

Longevity risk is the risk that RB Super members live longer, on average, than actuarial estimates of life expectancy.

Salary risk is the risk that higher than assumed salary growth will increase the cost of providing a salary-related pension.

Pension risk is the risk that pensions increase at a faster rate than assumed, thereby increasing the cost of providing them.

The table below shows the estimated change in the defined benefit obligation resulting from movements in key actuarial assumptions. These estimates change each assumption individually, holding other factors constant; they do not incorporate any correlations among these factors.

	2021 \$M	2020 \$M
Change in defined benefit obligation from an increase of 0.25 percentage points in:		
Discount rate (gross of tax)	(86)	(82)
Future salary growth	18	17
Future pension growth	68	64
Change in defined benefit obligation from a decrease of 0.25 percentage points in:		
Discount rate (gross of tax)	93	88
Future salary growth	(18)	(17)
Future pension growth	(65)	(61)
Change in defined benefit obligation from an increase in life expectancy of one year	49	45

Asset distribution

The distribution of RB Super's assets used to fund members' defined benefits at 30 June is:

	Per cent of fund assets	
	2021	2020
Cash and short-term securities	2	2
Fixed interest and indexed securities	9	8
Australian equities	28	30
International equities	26	26
Property	10	10
Private equity	10	9
Infrastructure	10	10
Alternative strategies	5	5
Total	100	100

AASB 119 Reconciliation

The table below contains a reconciliation of the AASB 119 valuation of RB Super. These details are for the defined benefit component only, as the RBA faces no actuarial risk on defined contribution balances and these balances have no effect on the measurement of the financial position of RB Super.

	2021 \$M	2020 \$M
<i>Opening balances:</i>		
Net market value of assets	1,325	1,376
Accrued benefits	(1,572)	(1,552)
Opening superannuation asset/(liability)	(247)	(177)
<i>Change in net market value of assets:</i>		
Change in net market value of assets	256	(51)
Change in accrued benefits	(32)	(20)
Change in superannuation asset/(liability)	224	(70)
<i>Closing balances:</i>		
Net market value of assets	1,581	1,325
Accrued benefits	(1,604)	(1,572)
Closing superannuation asset/(liability)	(23)	(247)
Interest income	46	46
Benefit payments	(49)	(46)
Return on plan assets	240	(70)
Contributions from RBA to defined benefit schemes	19	19
Change in net market value of assets	256	(51)
Current service cost	(44)	(49)
Interest cost	(54)	(53)
Benefit payments	49	46
Gains/(losses) from change in demographic assumptions	(58)	–
Gains/(losses) from change in financial assumptions	21	64
Gains/(losses) from change in other assumptions	54	(28)
Change in accrued benefits	(32)	(20)
Current service cost	(44)	(49)
Net Interest (expense)/income	(8)	(6)
Productivity and superannuation guarantee contributions	(11)	(10)
Superannuation (expense)/income included in profit or loss	(63)	(66)
Actuarial remeasurement gain/(loss)	257	(34)
Superannuation (expense)/income included in Statement of Comprehensive Income	194	(100)

The components of this table may not add due to rounding.

Note 15 – Financial Instruments and Risk

As the central bank in Australia, the RBA is responsible for implementing monetary policy, facilitating the smooth functioning of the payments system and managing Australia's foreign reserve assets. Consequently, the RBA holds a range of financial assets, including government securities, repurchase agreements and foreign currency swaps. With regard to financial liabilities, the RBA issues Australia's banknotes and takes deposits from its customers, mainly the Australian Government, and eligible financial institutions. The RBA also provides banking services to its customers and operates Australia's high-value payments and interbank settlement systems.

Financial risk

The RBA is exposed to a range of financial risks that reflect its policy and operational responsibilities. These risks include market risk, liquidity risk and credit risk. The chapters on 'Operations in Financial Markets' and 'Risk Management' provide information on the RBA's management of these financial risks. The RBA's approach to managing financial risk is set out in the Risk Appetite Statement available on the RBA website.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. In the RBA's case, market risk comprises foreign exchange risk and interest rate risk.

Foreign exchange risk

Foreign exchange risk is the risk that the fair value or cash flows of the RBA's foreign currency assets and liabilities will fluctuate because of movements in exchange rates. The RBA's net foreign currency exposure as at 30 June 2021 was \$51.6 billion (\$55.7 billion as at 30 June 2020). An appreciation in the Australian dollar would result in valuation losses, while a depreciation would lead to valuation gains. The overall level of foreign currency exposure is determined by policy considerations. Foreign currency risk can be mitigated to a limited extent by holding assets across a diversified portfolio of currencies. The RBA holds foreign reserves in seven currencies – the US dollar, euro, Japanese yen, Canadian dollar, Chinese renminbi, UK pound sterling and South Korean won.

The RBA also undertakes foreign currency swaps to assist its daily domestic liquidity management and in managing foreign reserve assets and Australia's foreign currency commitments as a member of the IMF. These instruments carry no foreign exchange risk.

Concentration of foreign exchange

The RBA's net holdings of foreign exchange (excluding Special Drawing Rights and Asian Bond Fund 2) were distributed as follows as at 30 June:

	Per cent of foreign exchange	
	2021	2020
US dollar	55	55
Euro	20	20
Japanese yen	5	5
Canadian dollar	5	5
Chinese renminbi	5	5
UK pound sterling	5	5
South Korean won	5	5
Total foreign exchange	100	100

Sensitivity to foreign exchange risk

The sensitivity of the RBA's profit and equity to a movement of +/-10 per cent in the value of the Australian dollar exchange rate as at 30 June is shown below. These figures are generally reflective of the RBA's exposure over the financial year.

	2021 \$M	2020 \$M
Change in profit/equity due to a 10 per cent:		
appreciation in the reserves-weighted value of the A\$	(4,693)	(5,066)
depreciation in the reserves-weighted value of the A\$	5,736	6,192

Interest rate risk

Interest rate risk is the risk that the fair value or cash flows of financial instruments will fluctuate because of movements in market interest rates. The RBA faces interest rate risk because most of its assets are financial assets that have a fixed income stream, such as Australian dollar and foreign currency securities. The price of such securities rises when market interest rates decline, and it falls if market rates rise. Interest rate risk increases with the maturity of a security. Interest rate risk on foreign assets is controlled through limits on the duration of these portfolios.

Sensitivity to interest rate risk

The figures below show the effect on the RBA's profit and equity of a movement of +/-1 percentage point in interest rates, given the level, composition and modified duration of the RBA's foreign currency and Australian dollar securities as at 30 June. The significant increase in interest rate risk on Australian dollar securities is primarily due to purchases under the bond purchase program, which have increased the amount and average duration of the RBA's holdings at 30 June 2021.

	2021 \$M	2020 \$M
Change in profit/equity due to movements of +/-1 percentage point across yield curves:		
Foreign currency securities	-/+294	-/+321
Australian dollar securities	-/+13,650	-/+3,135

Liquidity risk

Liquidity risk is the risk that the RBA will not have the resources required at a particular time to meet its obligations to settle its financial liabilities. As the ultimate source of liquidity in Australian dollars, the RBA can create liquidity in unlimited amounts in Australian dollars at any time. A small component of the RBA's liabilities is in foreign currencies, namely foreign repurchase agreements and obligations to repurchase gold sold under gold swap agreements.

Liquidity risk may also be associated with the RBA, in extraordinary circumstances, being forced to sell a financial asset at a price less than its fair value. The RBA manages this risk by holding a diversified portfolio of highly liquid Australian dollar and foreign currency assets.

The analysis of portfolio maturity in the table that follows is based on the RBA's contracted portfolio as reported in the RBA's Statement of Financial Position. All financial instruments are shown at their remaining term to maturity, which is equivalent to the repricing period. Other liabilities include amounts outstanding under repurchase agreements and obligations to repurchase gold sold under gold swap agreements. Foreign currency swaps reflect the gross contracted amount of the RBA's outstanding foreign currency swap positions.

Maturity Analysis – as at 30 June 2021

	Balance sheet total \$M	Contracted maturity \$M					No specified maturity \$M	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	721	14	704	–	–	–	3	0.00
Australian dollar investments								
Securities sold under repurchase agreements	979	–	–	–	960	19	–	0.43
Securities purchased under repurchase agreements	221,994	–	7,704	–	187,722	–	26,568	0.14
Other securities	250,587	–	355	4,572	92,076	153,584	–	0.90
Accrued interest	1,414	–	352	875	187	–	–	na
	474,974							
Foreign currency investments								
Balance with central banks	14,756	14,024	732	–	–	–	–	0.00
Securities sold under repurchase agreements	–	–	–	–	–	–	–	na
Securities purchased under repurchase agreements	281	–	281	–	–	–	–	0.05
Other securities	41,047	–	16,786	7,886	10,103	93	6,179	0.22
Deposits	524	0	524	–	–	–	–	2.53
Cash collateral provided	52	–	52	–	–	–	–	0.03
Accrued interest	50	–	33	17	–	–	–	na
	56,710							
Gold								
Gold holdings on loan	454	–	303	151	–	–	–	0.09
Gold holdings	5,568	–	–	–	–	–	5,568	na
	6,022							

	Balance sheet total \$M	Contracted maturity \$M					No specified maturity \$M	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Property, plant & equipment	754	-	-	-	-	-	754	na
Other assets	716	-	39	10	3	1	663	na
Total assets	539,897	14,038	27,865	13,511	291,051	153,697	39,735	0.50
Liabilities								
Deposits	415,576	359,025	56,551	-	-	-	-	0.01
Distribution payable to the Commonwealth	2,671	-	2,671	-	-	-	-	na
Cash collateral received	163	-	163	-	-	-	-	0.03
Australian banknotes on issue	95,485	-	-	-	-	-	95,485	0.00
Other liabilities	2,997	-	2,596	2	188	3	208	(0.04)
Total liabilities	516,892	359,025	61,981	2	188	3	95,693	0.01
Capital and reserves	23,005							
Total balance sheet	539,897							
Swaps								
Australian dollars								
Contractual outflow	(29)	-	(29)	-	-	-	-	
Contractual inflow	4,449	-	75	-	4,374	-	-	
	4,420	-	46	-	4,374	-	-	
Foreign currency								
Contractual outflow	(28,159)	-	(23,785)	-	(4,374)	-	-	
Contractual inflow	23,739	-	23,739	-	-	-	-	
	(4,420)	-	(46)	-	(4,374)	-	-	

Maturity Analysis – as at 30 June 2020

	Balance sheet total \$M	Contracted maturity \$M					No specified maturity \$M	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Assets								
Cash and cash equivalents	516	38	477	–	–	–	1	0.09
Australian dollar investments								
Securities sold under repurchase agreements	22	–	–	11	11	–	–	0.27
Securities purchased under repurchase agreements	138,626	–	81,367	15,326	13,922	–	28,011	0.23
Other securities	72,793	–	215	15,643	22,042	34,893	–	0.52
Accrued interest	473	–	178	292	3	–	–	na
	211,914							
Foreign currency investments								
Balance with central banks	16,046	15,245	801	–	–	–	–	(0.01)
Securities sold under repurchase agreements	–	–	–	–	–	–	–	na
Securities purchased under repurchase agreements	3,509	–	3,509	–	–	–	–	(0.01)
Other securities	38,197	–	13,984	10,858	6,133	111	7,111	0.16
Deposits	319	–	319	–	–	–	–	1.69
Cash collateral provided	49	–	49	–	–	–	–	0.14
Accrued interest	80	–	62	18	–	–	–	na
	58,200							
Gold								
Gold holdings on loan	1,096	–	590	506	–	–	–	0.12
Gold holdings	5,519	–	–	–	–	–	5,519	na
	6,615							

	Balance sheet total \$M	Contracted maturity \$M					No specified maturity \$M	Weighted average effective rate %
		On demand	0 to 3 months	3 to 12 months	1 to 5 years	Over 5 years		
Property, plant & equipment	729	–	–	–	–	–	729	na
Other assets	697	–	25	9	4	1	658	na
Total assets	278,671	15,283	101,576	42,663	42,115	35,005	42,029	0.27
Liabilities								
Deposits	153,541	82,032	71,509	–	–	–	–	0.18
Distribution payable to the Commonwealth	2,567	–	2,567	–	–	–	–	na
Cash collateral received	27	–	27	–	–	–	–	0.14
Australian banknotes on issue	90,102	–	–	–	–	–	90,102	0.00
Other liabilities	2,102	–	1,651	1	10	12	428	(0.05)
Total liabilities	248,339	82,032	75,754	1	10	12	90,530	0.11
Capital and reserves	30,332							
Total balance sheet	278,671							
Swaps								
Australian dollars								
Contractual outflow	(107)	–	(107)	–	–	–	–	
Contractual inflow	988	–	988	–	–	–	–	
	881	–	881	–	–	–	–	
Foreign currency								
Contractual outflow	(20,844)	–	(20,844)	–	–	–	–	
Contractual inflow	19,963	–	19,963	–	–	–	–	
	(881)	–	(881)	–	–	–	–	

Credit risk

Credit risk is the potential for financial loss arising from an issuer or counterparty defaulting on its obligations to repay principal, make interest payments due on an asset, or settle a transaction. The RBA's credit exposure is managed within a framework designed to contain risk to a level consistent with its very low appetite for such risk. In particular, credit risk is controlled by holding securities issued by a limited number of highly rated governments, government-guaranteed agencies and supranational organisations and holding high-quality collateral under reverse repurchase agreements.

The RBA held no past due or impaired assets at 30 June 2021 or 30 June 2020.

The RBA's maximum exposure to credit risk for each class of recognised financial assets, other than derivatives, is the carrying amount of those assets as indicated in the balance sheet.

The RBA's maximum credit risk exposure to derivative financial instruments is:

1. Foreign exchange swaps – As at 30 June 2021, the RBA was under contract to purchase \$23.7 billion of foreign currency (\$20.0 billion at 30 June 2020) and sell \$28.2 billion of foreign currency (\$20.8 billion at 30 June 2020). As of that date there was a net unrealised loss of less than \$0.1 billion on these swap positions included in net profit (\$0.1 billion unrealised gain at 30 June 2020).

The RBA has a credit exposure from foreign exchange swaps because of the risk that a counterparty might fail to deliver the second leg of a swap, a sum that would then have to be replaced in the market, potentially at a loss. To manage credit risk on both foreign exchange swaps (excluding swaps with the Fed under the US dollar swap facility) and gold swaps (see 'Gold exchanged under gold swap agreements' below), the RBA exchanges collateral with counterparties under terms specified in credit support annexes (CSAs), which cover the potential cost of replacing the swap position in the market if a counterparty fails to deliver. The RBA's CSAs specify that only Australian dollar cash is eligible as collateral. Under CSAs, either party to the agreement may be obliged to deliver collateral with interest paid or received on a monthly basis. At 30 June 2021, the RBA held \$0.1 billion of collateral (less than \$0.1 billion of collateral was provided at 30 June 2020).

2. Bond futures – As at 30 June 2021, the amount of credit risk on margin accounts associated with bond futures contracts held by the RBA was approximately \$2.4 million (\$2.4 million at 30 June 2020). As at 30 June 2021, there was an unrealised loss of less than \$0.1 million brought to account on those contracts (\$1.1 million unrealised gain at 30 June 2020).

Assessment of expected credit loss under AASB 9

The RBA assesses its financial assets carried at amortised cost, mainly its reverse repurchase agreements, gold swaps and foreign currency-denominated balances held with other central banks, for any deterioration in credit quality which could result in losses being recorded. The RBA's assessment is done on an individual exposure basis and takes account of: the counterparties with which balances are held; the collateral, if any, it holds against exposures and the terms upon which collateral is margined; and the remaining terms to maturity of such exposures. Based on the assessment at 30 June 2021, the provision for expected credit losses was immaterial.

Collateral held under reverse repurchase agreements

Cash invested under reverse repurchase agreements in overseas markets is secured against government securities or securities issued by US agencies; the RBA takes and maintains collateral to the value of 102 per cent of the cash invested.

Cash invested under Australian dollar reverse repurchase agreements is secured by securities issued by Australian governments, supranational organisations, banks and various corporate and asset-backed securities. The RBA holds collateral equivalent to the amount invested plus a margin according to the risk profile of the collateral held. If the current value of collateral falls by more than a predetermined amount, the counterparty is required to provide additional collateral to restore this margin; the thresholds are specified in the legal agreement that governs these transactions. The management of collateral and cash associated with tri-party repurchase agreements is conducted through a third party, in this case the Australian Securities Exchange. The terms and requirements of tri-party repurchase agreements are broadly consistent with bilateral agreements and the RBA manages the risk in a similar way. The RBA does not sell or re-pledge securities held as collateral under reverse repurchase agreements.

Collateral provided under repurchase agreements

At 30 June 2021, the carrying amount of securities sold and contracted for purchase under repurchase agreements was \$996 million (\$22 million at 30 June 2020). Terms and conditions of repurchase agreements are consistent with those for reverse repurchase agreements disclosed above.

Gold exchanged under gold swap agreements

Credit exposure from gold swaps is managed under CSAs the RBA has established with its swap counterparties, which cover both gold swaps and foreign exchange swaps. Australian dollar cash collateral is exchanged to cover the potential cost of replacing swap positions in the market if a counterparty fails to meet their obligations. The potential cost is assessed as the net costs of replacing all outstanding swap positions covered by the CSA.

As at 30 June 2021, there was no gold sold and contracted for purchase under gold swap agreements (\$0.9 billion at 30 June 2020). There was no gold purchased and contracted for sale under gold swap agreements at 30 June 2021 or 30 June 2020.

Concentration of credit risk

As noted, the RBA operates to minimise its credit risk exposure through comprehensive risk management policy guidelines. The following table indicates the concentration of credit risk in the RBA's investment portfolio at 30 June.

	Risk rating of security / issuer ^(a)	Risk rating of counterparties ^(a)	Per cent of investments	
			2021	2020
Australian dollar investments				
Holdings of Australian Government Securities	Aaa	na	37.8	21.2
Holdings of semi-government securities	Aaa	na	0.1	2.2
	Aa	na	8.7	2.8
Securities purchased under reverse repurchase agreements	Aaa	Aaa	–	0.2
	Aaa	Aa	29.1	24.0
	Aaa	A	7.0	9.9
	Aaa	Baa	1.4	1.2
	Aaa	Other ^(b)	0.5	2.2
	Aa	Aaa	–	0.2
	Aa	Aa	0.5	5.4
	Aa	A	1.3	3.1
	Aa	Baa	0.1	0.2
	Aa	Other ^(b)	0.3	0.1
	A	Aa	0.2	0.9
	A	A	0.7	2.0
	A	Baa	0.1	0.2
	Baa	Aa	0.0	0.1
	Baa	A	0.1	0.1
	Baa	Baa	0.0	0.1
Securities sold under repurchase agreements	Aaa	Aa	0.1	0.0
Foreign investments				
Holdings of securities	Aaa	na	3.5	6.5
	Aa	na	1.5	4.3
	A	na	2.5	2.8
Securities purchased under reverse repurchase agreements	Aaa	Aa	0.1	1.0
	Aa	A	–	0.3
Deposits	na	Aaa	0.4	0.4
	na	Aa	0.0	0.1
	na	A	2.4	5.4
	na	Other	0.1	–
Other	Aaa	Aa	–	0.1
	Aaa	A	0.1	–
Other assets			1.4	3.0
			100.00	100.00

(a) Average of the credit ratings of the three major rating agencies, where available

(b) This category includes counterparties that are not rated

Note 16 – Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date. This is the quoted market price if one is available. The RBA's financial assets measured at fair value include its holdings of Australian dollar securities, foreign government securities, bond futures, foreign currency swap contracts and its shareholding in the BIS. Non-financial assets carried on the balance sheet at fair value include the RBA's property and gold holdings. Other than derivatives, there are no financial liabilities measured at fair value.

AASB 13 requires financial and non-financial assets and liabilities measured at fair value to be disclosed according to their position in the fair value hierarchy. This hierarchy has three levels: valuation for Level 1 is based on quoted prices in active markets for identical assets; for Level 2, valuation is based on quoted prices or other observable market data not included in Level 1; Level 3 includes inputs to valuation other than observable market data.

The table below presents the RBA's assets and liabilities measured and recognised at fair value and their classification within the fair value hierarchy at 30 June 2021.

	Fair Value			Amortised Cost \$M	Total \$M
	Level 1 \$M	Level 2 \$M	Level 3 \$M		
As at 30 June 2021					
Financial assets					
At fair value through profit or loss					
Australian dollar securities	250,029	2,705	–	na	252,734
Foreign government securities	35,386	4,982	–	na	40,368
Foreign currency swaps	–	212	–	na	212
At fair value through other comprehensive income					
Shares in international and other institutions	–	–	510	na	510
At amortised cost	na	na	na	239,125	239,125
	285,415	7,899	510	239,125	532,949
Non-financial assets					
Land and buildings	–	–	597	12	609
Gold holdings	6,021	–	–	na	6,021
Other	–	–	–	318	318
	6,021	–	597	330	6,948
Total assets	291,436	7,899	1,107	239,455	539,897
Financial liabilities					
At fair value through profit or loss					
Foreign currency swaps	–	220	–	na	220
Not at fair value through profit or loss	na	na	na	516,409	516,409
	–	220	–	516,409	516,629
Non-financial liabilities	na	na	na	263	263
Total liabilities	–	220	–	516,672	516,892

	Fair Value			Amortised Cost \$M	Total \$M
	Level 1 \$M	Level 2 \$M	Level 3 \$M		
As at 30 June 2020					
Financial assets					
At fair value through profit or loss					
Australian dollar securities	72,880	368	–	na	73,248
Foreign government securities	32,263	5,664	–	na	37,927
Foreign currency swaps	–	204	–	na	204
At fair value through other comprehensive income					
Shares in international and other institutions	–	–	521	na	521
At amortised cost	na	na	na	159,273	159,273
	105,143	6,236	521	159,273	271,173
Non-financial assets					
Land and buildings	–	–	567	12	579
Gold holdings	6,614	–	–	na	6,614
Other	–	–	–	305	305
	6,614	–	567	317	7,498
Total assets	111,757	6,236	1,088	159,590	278,671
Financial liabilities					
At fair value through profit or loss					
Foreign currency swaps	3	60	–	na	63
Not at fair value through profit or loss	na	na	na	247,776	247,776
	3	60	–	247,776	247,839
Non-financial liabilities	na	na	na	500	500
Total liabilities	3	60	–	248,276	248,339

The RBA's Level 2 financial instruments include foreign currency swaps priced with reference to an active market yield or rate, but which have been interpolated to reflect maturity dates. Prices for some Australian dollar and foreign currency-denominated securities are derived from markets that are not considered active.

Level 3 assets include the RBA's shareholding in the BIS and its property (excluding leased property, which is recorded at amortised cost). The shareholding in the BIS is valued using the net asset value, as published in annual financial statements of the BIS, less a discount of 30 per cent. The discount applied is based on a Hague Arbitral Tribunal decision on compensation paid to former private shareholders in 2002, which remains the latest repurchase conducted by the BIS. Fair values of the RBA's property incorporate factors such as net market income and capitalisation rates, for property valued using an income capitalisation or a discounted cash flow approach, and depreciation rates for property valued using a depreciable replacement cost methodology.

Australian dollar securities valued at \$164 million at 30 June 2020 were transferred from Level 1 to Level 2 during the year, as prices for these bonds are derived from markets that are considered less active. There were no other transfers between levels within the fair value hierarchy during the financial year.

Movements in the fair value of the RBA's property during the financial year are detailed in Note 8. Fair value changes in the RBA's shareholdings in international and other institutions solely reflect valuation movements recognised in Other Comprehensive Income.

Note 17 – Subsequent Events

Unless otherwise disclosed in this report, there are no events subsequent to 30 June 2021 to be disclosed.



Auditor-General for Australia



Independent Auditor's Report

To the Treasurer

Opinion

In my opinion, the financial statements of the Reserve Bank of Australia and its subsidiary (together the Consolidated Entity) for the year ended 30 June 2021

- (a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- (b) present fairly the financial position of the Consolidated Entity as at 30 June 2021 and its financial performance and cash flows for the year then ended.

The financial statements of the Consolidated Entity, which I have audited, comprise the following as at 30 June 2021 and for the year then ended:

- Statement of Assurance;
- Statement of Financial Position;
- Statement of Comprehensive Income;
- Statement of Distribution;
- Statement of Changes in Capital and Reserves;
- Cash Flow Statement; and
- Notes to and Forming Part of the Financial Statements comprising a summary of significant accounting policies and other explanatory information.

Basis for opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Consolidated Entity in accordance with the relevant ethical requirements for financial statement audits conducted by me. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Key audit matter

Accuracy of the liability for the Australian Banknotes

Refer to note 1 'Accounting Policies'

The balance of Australian banknotes on issue represents the value of all banknotes on issue and the liability \$95,485m as at 30 June 2021 is measured at the face value of all Australian banknotes issued less any banknotes withdrawn from circulation.

The accuracy of the liability for Australian banknotes on issue is based on their ability to retain legal tender status.

Australian banknotes on issue relates directly to one of the Reserve Bank of Australia's key roles, the issuance of currency, as defined in the *Reserve Bank Act 1959* and is a key audit matter due to:

- high interest to the users of the financial statements; and
- the balance is significant relative to the Reserve Bank of Australia's Statement of Financial Position.

How the audit addressed the matter

To audit the Australian banknotes on issue, I performed the following audit procedures:

- tested design and operating effectiveness of key controls relevant to the accurate recording of the issuance and return of banknotes, including information technology general controls (ITGCs) over the Note Control System;
- agreed the liability for Australian banknotes on issue recorded in the financial statements to the balance recorded in the Note Control System as at 30 June 2021;
- tested a sample of transactions of issuance and return of banknotes during the year and transactions occurring after the reporting period using the following procedures:
 - obtained the amounts recorded in the general ledger and compared against transactional records in the Note Control System and cash movements;
 - checked that transactions in the Note Control System were appropriately authorised; and
 - checked that the transaction was recorded in the correct reporting period.
- checked that all Australian banknotes remain legal tender under the *Reserve Bank Act 1959*.

Key audit matter

Valuation of Australian dollar and foreign currency investments

Refer to note 1 'Accounting Policies' and note 15 'Financial Instruments and Risk'

Valuation of Australian dollar and foreign currency investments was a key audit matter due to their significant size relative to the Reserve Bank of Australia's statement of financial position \$531,684m as at 30 June 2021 and the complexity inherent in auditing a wide range of investments which use different valuation methodologies.

The portfolio of investments primarily comprises Australian dollar securities, foreign currency securities, repurchase agreements, deposits with other central banks, and foreign currency swap contracts. All investments are measured at fair value except for reverse repurchase agreements and deposits which are measured at amortised cost.

How the audit addressed the matter

To audit the valuation of Australian dollar and foreign currency investments, I performed the following audit procedures:

- tested the design and operating effectiveness of key controls over the accurate recording of the purchase and sale of investments, including ITGCs on the Reserve Bank of Australia's investment trading system;
- tested design and operating effectiveness of key controls over valuation of investments, including ITGCs on the Reserve Bank of Australia's securities valuation system;
- tested design and operating effectiveness of key controls relevant to the ongoing monitoring of the collateralisation of repurchase agreements, including those established as part of the Term Funding Facility; and
- tested year end valuations of Australian dollar and foreign currency securities using the following procedures:
 - checked all year end valuations of Australian dollar and foreign government securities and foreign currency swaps against independent pricing sources;
 - tested the year-end valuations of all foreign currency swaps using independent publicly available information;
 - checked whether all reverse repurchase agreements were appropriately collateralised in line with the Reserve Bank of Australia's policy. As part of this, for a sample of securities held as collateral I agreed valuations to independent pricing sources; and
 - requested and obtained independent confirmation from other central banks regarding the value of deposits held with them.

Other information

The Accountable Authority is responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2021 but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Accountable Authority's responsibility for the financial statements

As the Accountable Authority of the Consolidated Entity, the Governor is responsible under the *Public Governance, Performance and Accountability Act 2013* (the Act) for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under the Act. The Governor is also responsible for such internal control as the Governor determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Governor is responsible for assessing the ability of the Consolidated Entity to continue as a going concern, taking into account whether the entity's operations will cease as a result of an administrative restructure or for any other reason. The Governor is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's responsibilities for the audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Consolidated Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;

- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Consolidated Entity to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Consolidated Entity to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the Consolidated Entity audit. I remain solely responsible for my audit opinion.

I communicate with the Accountable Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the Accountable Authority, I determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Australian National Audit Office



Grant Hehir

Auditor-General

Canberra

10 September 2021

